FEDERAL FINANCIAL RAILWAY REGULATION

THE ALTON AS A TEST CASE

BY WILLIAM Z. RIPLEY

THE life of any man who, like Edward H. Harriman, can rise from comparative obscurity and indigence to the possession of a fortune exceeding $100,000,000 within the short span of eleven years, is indubitably, like his railroads, "affected with a public interest." The scope of Harriman's influence at the time of his death in 1909 was continental. He controlled fifty thousand miles of railway—more than there were in existence in the entire country at the close of the Civil War. He was a dominant factor in the inner circles of the greatest banking institutions. The vast resources of the New York life insurance companies were at his disposition. Ramifications of his political power, Federal and State, extended to every quarter of the land. State and even national conventions took his orders. Members of Congress did his bidding. Laws were enacted at his will. Only two men ever dared to block his path. The late J. P. Morgan stood between him and the possession of the Northern Pacific Railroad in 1901; and Theodore Roosevelt thwarted his purpose to become an absolute dictator of the transportation affairs of the United States.

Such extraordinary performance can never be justly appraised at close range; but a sufficient interval has now elapsed to warrant an estimate of the man and to view him in perspective among the stirring events of his time. Mr. George W. Kennan, officially introduced as a well-known author and traveler, whose works include *Siberia and the Exile System*, *Campaigning in Cuba* and *The Tragedy of Pelée*, apparently presents a chapter of his official

biography entitled, *The Chicago & Alton Case: A Misunderstood Transaction,* in THE NORTH AMERICAN REVIEW for January. With simple faith and extraordinary audacity this journalist plunges head-first into one of the most complicated episodes in Harriman's career, in an endeavor to make it appear " one of the great railroad achievements of the time."

Taken by itself this contribution deals merely with a relatively insignificant transaction. The Chicago & Alton reorganization was just a curtain-raiser for the great speculative railroad drama of 1898-1903. But it has become a classic in American corporate finance. It was an unusually clever bit of stock watering. It substantiates peculiarly well the need of Federal regulation of railroad security issues. Furthermore, it offers a choice opportunity for a disquisition upon morals in the conduct of business. It is quite immaterial to the public at large that expensively bound copies of this particular article have been lavishly bestowed upon newspapers, bankers and publicists throughout the country, regardless of expense. The caustic arraignment of my version of the affair in a recent volume on railroad finance [1] is likewise unimportant, except as an inducement to enter the lists in championship of others. What really matters is that the integrity of the Interstate Commerce Commission—an administrative body which the American people are bound before long to clothe with authority to regulate the issue of railroad securities—is impugned; that the presidential record of Theodore Roosevelt is viciously attacked; and that the only sure remedy for most of our financial ills in the field of railroading and of big business—downright, as distinguished from specious publicity—is entirely misconceived.

Before we consider who killed Cock Robin, it is pertinent to ascertain how dead he really is. Wherein the public has a vested interest in his demise, if proved, will appear later. Chicago & Alton common stock sold at $175 per share—the preferred at $200—in 1898 when the Harriman syndicate bought it. Eight per cent dividends had then been paid for a long time. Alton stock now sells at about $8.00 per share. The bonds—$10,000,000 of them for which the life insurance companies paid 96—now sell under 60. The Alton 3½s sell at about 45. The road has failed to earn even its fixed charges since 1912 by about $6,600,000, the deficit growing

[1] *Railroads: Finance and Organization;* 1915.

larger year by year. Profit and loss on the liability side of the balance sheet for 1915 stands at $7,451,000. Nothing but the recent investment by the Union Pacific of $8,417,000 in its new bond issues—there being no public market therefor—has kept the Alton out of receivership. This explains the anomaly of operation by the Union Pacific, although the majority of the Alton capital stock is still owned by the Clover Leaf. Whether this powerful creditor will be able to galvanize it into life through use as a connection into Chicago, time alone can tell. Cock Robin appears to be dead. Whether it was Harriman or some one else who dealt the fatal blow,—whether the former was indeed a " veray parfit gentil Knight " in business or whether he was an " undesirable citizen,"—has a certain bearing upon the fitness of Theodore Roosevelt to be a candidate once more for President of these United States.

What actually happened was as follows: In 1898 the Chicago & Alton was a trig little railroad about one thousand miles long, possessing one of the best physical locations as to distance, grade and curvature between Chicago, St. Louis and Kansas City. It had been raised by hand, milk fed and personally conducted, by a management which had grown up on the job. It had been upbuilt out of surplus earnings through past years, over and above ample and regular dividends. Its capitalization, according to the Annual Report of 1894, represented less than 60 per cent " of the actual cost of the property in its present improved condition." But President Blackstone was growing old. Youthful railroad systems were springing up on all sides, each intent upon securing an entrance into Chicago over its own rails for all traffic from beyond the great rivers. The road's former lucrative business as a through line was " drying up." Pet lambs, even among railroads, cannot subsist in the company of cub lions without something happening in the course of time! At this juncture, in 1898, Harriman headed a syndicate which bought practically all its capital stock. The total capitalization was thereupon, within seven years, expanded from $33,951,000 to more than $114,000,000,—an *increase* of securities exceeding $60,000 per mile, that being about the average net capitalization of the railroads of the United States at the present time. According to the oral argument of Judge Lovett, now Chairman of the Union Pacific Board, the property was

Worth approximately $59,000,000. . . . They issued $94,000,000 of par value for what cost them $57,000,000. That is a clear and graphic way of stating it. * * * * * *
Com'r. Harlan: They simply bought an opportunity. Was not that it?
Mr. Cravath: Undoubtedly.

This " opportunity " was realized by first placing a $40,000,000 3 per cent mortgage upon the property as it stood, to take up $8,500,000 worth of first mortgage bonds, to make improvements—only $18,000,000 was, however, actually expended for this purpose—and " for other corporate purposes." (See table on following page.) This left a net increase of $62,000,000 of stock and liabilities without one dollar of consideration. Most of these new bonds were sold to stockholders—the syndicate—at 65; and these stockholders, for the most part, promptly disposed of them to the public at prices ranging from 80 to 96. A New York life insurance company bought $10,000,000 of them at 96, even before they were listed, apparently. The injunction against not letting the right hand know what the left hand doeth, was not too scrupulously observed, corporatively, before the days of the Hughes life insurance investigation! Then, out of the 65 cents on the dollar realized by the Alton Railroad through the sale of its bonds, the principal stockholders voted themselves a dividend of 30 per cent, amounting to $6,669,180,—which fact, by the way, *was never reported to the Interstate Commerce Commission.* The transaction was fulfilled through an exchange by the syndicate of their Alton *Railroad* stock for the shares of a new *Railway* holding company, to which the old *Railroad* was then tied up by a long lease. The purpose of this complicated arrangement will be evident shortly. The stock of this holding *Railway* company, carrying control, then found a resting place in the treasuries of the Union Pacific and the Rock Island roads in turn. It was then foisted upon the so-called Clover Leaf, until that road went into bankruptcy. And now, at last, the poor little moribund waif has come back into the lap of the Union Pacific, Harriman's own railroad. What will become of it next? Physically fitted to be one of the most efficient lines between three of our greatest inland cities, having been financially assassinated thus, it lies prostrated. An " opportunity," industrially lost by the people because privately exploited for the profit of a few!

HARRIMAN INVESTIGATION.

[*Official I. C. C. Syllabus*]	Page No. Vol. 7	Page No. Oral Argument	Page No. Vol. of Exhibits
The books of the Company, on December 31, 1898, showed that the value of the property was $39,935,887	42, 93, 94, 422	...	...
and the stock and funded debt and other liabilities amounted to $33,951,407	422	...	...
About this time the Harriman syndicate purchased the Chicago & Alton at $200 for the preferred stock and $175 for the common, or at a total cost of $39,042,200	76, 82, 127, 151, 445	15	...
Thence on until June 30, 1906, the capital indebtedness of the C. & A. expanded from $33,951,407 to an amount between about $114,000,000 and $122,000,000	94–96, 418, 422, 426	176	182
an increase of about $80,000,000	97	...	165
Of this only $18,000,000 was actually expended in improvements, etc.	96, 122, 278, 419, 424	176	180
leaving $62,000,000 increase of stock and liabilities without one dollar of consideration	98	176	...
This was done by placing a $40,000,000 3% mortgage on the property	44, 119, 141, 386	9	164
to take up $8,500,000 of first mortgage bonds	44, 56, 143, 437	179	...
and to make improvements, additions, and for "other corporate purposes"	...	...	...
These bonds were sold to stockholders at about 66 cents on the dollar [*Apparently 65; W. Z. R.*]	50, 120, 143, 426	9	...
the syndicate obtaining nearly all	45, 49	...	...
owning at that time 218,138 shares of stock out of 222,306 outstanding	43	...	...
But only $32,000,000 of the $40,000,000 issue was sold	44, 426	...	...
the syndicate disposing of what it had obtained at a profit of about $8,000,000	105, 107, 108	...	...
Of the remaining $8,000,000 issue, $7,000,000 was pledged as security for a $5,000,000 loan, and the remaining $1,000,000 was retained in the treasury	95, 96, 423	...	...
Out of about 66 cents on the dollar realized by the R.R. the principal stockholders voted themselves a dividend of 30 per cent, amounting to $6,669,180	55, 105, 107, 108, 427, 447	18	...
which was never reported to the I.C.C.	...	...	...
It did appear that $10,000,000 of them went into one of the great New York life insurance companies at about 96 cents on the dollar	48 344–5–6–7–8	21, 179	175

The most succinct defense of the foregoing transactions is contained in the following introduction to the argument of Paul D. Cravath, counsel for the Harriman syndicate:

> There is no doubt . . . that another purpose and effect of this recapitalization was to create securities, the aggregate par value of which exceed the intrinsic demonstrated value of the property at the time those securities were created. . . . A portion of these new securities, chiefly the common stock . . . represented the future of the property . . . the added value which was expected to result . . . from the application of new methods and on account of the growth of the country. . . .
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> But . . . we are dealing with the period which immediately followed the depression of 1893 . . . when very different standards were being applied from those applied now and when many things were not only permissible, but were approved, which, under existing conditions and under the conservative influences which have come from success and from our rapid development, are now regarded at least as unwise.

The foregoing admission that the Alton reorganization may be "now regarded at least as unwise"—a piece of bad business—few will question nowadays. The Rock Island, Frisco and other companies have since demonstrated only too clearly that corporations with such a superfluity of stocks that even preferred shares could not possibly be marketed near par, must perforce finance all future needs through bond issues or notes; and that the constantly growing burden of fixed charges cannot lead otherwise than downhill toward bankruptcy,—where in fact, as we have just seen, the Alton has fetched up. But this affair is not merely a case of unwise financing. It is abject moral delinquency—bad faith and unfair practise—which merits our serious attention. This is where the chasm between Harriman's advocates and his critics yawns most wide and deep. It is one thing to trade off a spavined nag, as spavined; it is quite another to dispose of it as a trotter. Everything hinges upon two points: first, whether frank and full publicity prevailed; and secondly, whether those who bought the Alton stocks from the syndicate were induced to purchase them under a consequent misapprehension as to their value. Whether Harriman "lost control," as Mr. Kennan states,—having this precious possession "wrested" from him; or whether he was glad to have it off his hands, affords a test of the faith entertained in the outcome of the reorganization. Proof of willful decep-

tion also fully accounts for the relative immunity from criticism of the Alton syndicate until the Interstate Commerce Commission made its investigation in 1907 [1]; and it incidentally disposes of the charge that personal animosity of President Roosevelt brought about the public condemnation visited upon the reorganization. So adroitly was everything concealed that not even the Rock Island "crowd"—not unskillful in the ways of Wall Street—suspected the actual situation until they had acquired a half interest in the road. Thus the proof of deceptive accounting has a direct bearing upon the ulterior purpose of the Harriman syndicate. If everything was indeed straightforward and constructive, open and above-board, what was the use of juggling the accounts in the face of such anticipated expansion and prosperity for the property? Concealment, besides suggesting duplicity, demands a motive. Men do not falsify for fun. The relations between the Harriman syndicate and its customers, the Rock Island people, must be clearly understood.

The whole-hearted and disinterested confidence of Mr. Harriman in the future of his reorganized Alton property, we may learn from his own lips.[2] Harriman was never a dodger when cornered. He was a good sport, that way.

Mr. Kellogg: Then you consider it legitimate, do you, to put $19,000,000 of common stock on the public that will never pay a dividend?

Mr. Harriman: Did we ever say to the public that we would pay a dividend?

Mr. Kellogg: You say the public can take care of themselves in buying stock? Don't you think that when stock of a railroad is put out, there is some implied obligation at some time to pay something on it?

Mr. Harriman: Yes, sir. * * * * *

Mr. Kellogg: But you put on the market nearly $40,000,000 of stock, on half of which you have paid no dividends, is not that true?

Mr. Harriman: Undoubtedly that is so.

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[1] Compare, however, U. S. Industrial Commission, 1901, Vol. XIX, page 407, and the editorial in the New York *Evening Post*, February 26, 1907, as to the long-standing suspicion in Wall Street concerning this "very peculiar" transaction.

[2] All the New York papers reprinted this testimony of February 25-6, 1907, word for word. My quotations, however, are from the official stenographic record.

Mr. Kellogg: And this syndicate had some of their common stock hadn't they?

Mr. Harriman: You ask the Rock Island people, they may know.

Mr. Kellogg: I think they do know, quite likely. I will ask them. You unloaded the stock on somebody else?

Mr. Harriman: I don't know whether you call it unloading. They can tell you. They are carrying the load.

Even the New York *Sun*—hardly a Populist organ—labelled this sally, "The Rock Island Carrying the Bag"; while the *Times*, noting the chuckle which according to eye witnesses accompanied the statement, heralded it as "Another Harriman Joke."

How did the Rock Island people, on their part, regard the affair—not over-squeamish veterans as they were in the subtler arts of railroad finance? This time let their new Alton Auditor be the spokesman.

Mr. Kellogg: In what condition did you find . . . the Chicago & Alton Railway Company, the consolidated company?

Mr. Hillard: Well, about the first thing that came to me was the preparation of a plan to obtain additional money that was absolutely necessary. * * * * * *

Mr. Kellogg: Well, what did you do to make an investigation to find out how to pay for the line of road and what did you find? State generally.

Mr. Hillard: . . . after considerable hunting around I discovered that that road (a 34½ mile cut-off between the two Alton lines) which was not completed and was not constructed at all, had been already mortgaged, and that therefore there was no possibility of getting any bonds on it, unless we could float a second mortgage which was very poor security. * * * * * *

Mr. Kellogg: All that $22,000,000 of bonds are outstanding?

Mr. Hillard: Yes sir.

Mr. Kellogg: And the company has been compelled to issue . . . over $5,000,000 car trust certificates, has it not?

Mr. Hillard: Yes. . . . Up to the present date they (the Rock Island people) have issued over $5,000,000 of car trust certificates.

Mr. Kellogg: And with the $40,000,000 first mortgage, 3 per cent bonds, it has been compelled to borrow money, has it not? . . . And now has no money available for the completion of the road which was covered by this second mortgage of $22,000,000?

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Mr. Kellogg: They had mortgaged the road and issued and sold the bonds, but had not built it.

Mr. Hillard: That is right. * * * * *

Mr. Kellogg: It has had to provide money in addition to all these securities?

Mr. Hillard: Yes sir.

Mr. Kellogg: I guess that is all.

This was the condition, be it recalled, of a railroad which had just issued $80,000,000 in stock and bonds for $18,000,000 of actual improvements "and for other corporate purposes."

Both the balance sheet and the revenue account under the Harriman administration were smothered in a number of ways. As for the former, it would be too tedious and technical to follow the matter in detail. But the result may be stated in the words of an impartial expert, Thomas W. Mitchell:[1]

> Apparently the company had made enormous expenditures upon its property and equipment, raising funds by means of bond, equipment bond and stock sales. But all of this is merely on the surface. The Chicago & Alton reports furnish an excellent example of the errors into which an investor might fall if he depended solely upon an analysis of the statements contained therein as a source of information. . . . The above account illustrates the method by which a corporation could inflate its capitalization . . . without the appearance of stock watering, etc.

And then in the second place, the income account was completely obscured through the device of the *Railway* holding company which alone reported its income from the operating *Railroad*, regardless of the actual earnings of the latter. Lest we overstate the case, take the conclusion once more from the foregoing expert:

> Out of the rental received by it, the Chicago & Alton Railroad Company might build up a large surplus or an equally large deficiency year by year, and in neither case would the stock or bond holders of either company, except those who were officers, have the faintest suspicion of its existence.

In order to spike once and for all the contention repeatedly made by Harriman and his counsel that everything was open and above board,—because forsooth a few flimsy formalities requisite for listing on the Stock Exchange were complied with,—one further bit of evidence from the new Rock Island auditor is worth hearing. This time the testi-

[1] *Journal of Accountancy*, 1907, p. 219.

mony relates to the capitalization of the surplus, partially constituted of past expenditures for improvements, which had been " ploughed in " to the property. The 30 per cent. cash dividend was first charged against this surplus, and then the discount on the new bonds—that is to say, the difference between 65, at which they were sold, and the par value, at which they must be redeemed ultimately—was charged against the balance of this surplus, completely dissipating it.

Mr. Kellogg: But charging the discount on bonds against this would cover it up on the books, would it not?

Mr. Hillard: Yes.

Mr. Kellogg: It would tend to obscure it would it not?

Mr. Hillard: Yes, so far as the public were concerned.

Mr. Kellogg: It would cover it up so far as any man looking over the books was concerned?

Mr. Hillard: No; any man looking over the books would see it, but any man looking over the annual report would not. * * *

Mr. Kellogg: Then, so far as the annual reports made to the stock holders or to the public is concerned, they would not see that?

Mr. Hillard: No, they would not see that. * * * * * *

Comr. Lane: If those things could be done . . . would not a practise of that sort destroy the integrity and uniformity of railroad accounts generally?

Mr. Hillard: It would upset the whole system.

The conclusion to which we come, then, is this—and its importance alone warrants this tedious rehearsal of a bit of ancient history: that neither the public nor the investing class will ever be assured against the recurrence of scandals like the Alton, the Frisco, the Rock Island and the New Haven, until there is a veritable acceptance of the principle of *genuine*, as distinguished from tinsel, publicity of accounts. No half truths will answer. The letter killeth but the spirit giveth life. And real publicity means such frankness between directors and those whom they represent, as is the expression of a refined and lively sense of trusteeship and accountability for the outcome of their management. Nor may the public be left out of account. To bleed a railroad white and then turn it loose upon one's neighbors to die a lingering death, ought not to be tolerated by law. And when Federal incorporation of railroads and of big businesses comes—as come it must in due season—it will make ample provision for the prevention of the holding company abuse,

of indirection of accounting methods, and for a reasonably greater liability on the part of directors than now prevails under the laws of the several American commonwealths.

The record of Theodore Roosevelt in this Alton affair is completely unsullied. There is not a shred of evidence to show that Harriman's refusal to contribute to the Republican campaign fund in 1906, leading up to the " undesirable citizen " episode, had anything whatever to do with the Interstate Commerce Commission investigation. This matter has been fully covered by Mr. Roosevelt himself in his *Presidential Addreses and State Papers* and in the accompanying letter published herewith:

OYSTER BAY, LONG ISLAND, N. Y.,
January 19th, 1916.

MY DEAR PROFESSOR RIPLEY:

I have just been sent a pamphlet called " The Chicago and Alton Case," written by a Mr. George Kennan.[1]

This pamphlet seems to be chiefly an attack upon you, but it is also an attack on the Interstate Commerce Commission, including especially Commissioner Prouty, but also Mr. Franklin Lane and the other Commissioners. Moreover, it includes several statements about my action. The author, Mr. Kennan, on page 39, in condemning the Interstate Commerce Commissioners, says " *Suppressio veri, suggestio falsi.*" I agree with him. I further agree that the suppression of the truth, and the suggestion or insinuation of the false, are morally as obnoxious as the lie direct; and are even meaner than the lie direct, because, on the whole, they are more cowardly. Mr. Kennan states that I had a disagreement with Mr. Harriman in the Fall of 1906, saying that Mr. Harriman thought that I had " failed to observe the terms of a mutual understanding." He states that Mr. Harriman refused to contribute to the Republican Party when asked to do so by James S. Sherman, for the alleged reason that I had not kept faith with him and that this was made known to me " perhaps with an unfair or inaccurate statement of the reasons for it "; and that I thereupon assumed toward Mr. Harriman an attitude of hostility, and " finally characterized him in a letter to Representative Sherman as an undesirable citizen " (incidentally, the " finally " is a misleading word, for I made the characterization given as soon as Mr. Sherman repeated the statement to me). Mr. Kennan then speaks of a controversy over the matter, due to the publication of a copy of a private letter written by Mr. Harriman to a Mr. Sidney Webster, and in this controversy he states that " the

[1] [Published first in THE NORTH AMERICAN REVIEW, January, 1916.—EDITOR.]

President denied and Mr. Harriman reaffirmed the accuracy of the statements made therein."

This entire matter has been published in full, again and again, and brought out under oath in the testimony before the Senate Investigating Committee, controlled by my political opponents, in the Fall of 1912. The detailed republication of the letters written at that time between Mr. Harriman and myself, and my comments on them, will be found on pages 846 to 858 inclusive in the 5th volume of my *Presidential Addresses and State Papers*. The letters there given verbatim between myself and Mr. Harriman, must of course be known to Mr. Kennan, and the reading of them is incompatible with the assumption that Mr. Kennan or anyone else is honest in stating that there was the slightest possibility of a "disagreement or misunderstanding" as to what I had said or as to my "keeping faith." It was Mr. Sherman who himself made known to me what Mr. Harriman had said to him, which was in substance repeated by Mr. Harriman in his letter to Mr. Webster. Mr. Kennan says that "Perhaps" Mr. Sherman made "an unfair or inaccurate statement"—Mr. Sherman being the only person who made the statement to me, until I saw the Webster letter published. Mr. Sherman was afterwards Vice-President of the Untied States, and the newspapers reported Mr. Harriman as backing him for that position. This is not compatible with the belief by Mr. Harriman that Mr. Sherman had been guilty of falsehood. Mr. Kennan conceals the reasons why I spoke of Mr. Harriman as an "undesirable citizen," and of course the ordinary reader of his paper would think it was on account of the railway transaction in question. In reality they were as follows:

In my letter to Mr. Sherman of October 8th, 1906, I said: "You informed me that Mr. Harriman told you that he did not care in the least who was elected, because those people were crooks and he could buy them; that whenever he wanted legislation from the State Legislature he could buy it; that he could buy Congress, and, if necessary, he could buy the Judiciary. This was doubtless said partly in boastful cynicism and partly in a mere burst of bad temper, because of his objection to the Interstate Commerce Law and to my action as President, but it shows a cynicism and deep sunk corruption which make a man of such character at least as undesirable a citizen as Debs, or Moyer or Haywood."

This was my published statement, on the authority of Mr. Sherman; and two years later Mr. Harriman supported the same Mr. Sherman for Vice-President. If Mr. Kennan does not regard such boasts as indicating "undesirability" in a citizen, that is his affair. But when he conceals the reason why I spoke of Mr. Harriman as an undesirable citizen, he is guilty of the "*suppressio veri*" for which he condemns others. When he furthermore conceals the fact that the publication of my letter of October 14th, 1906, to Mr. Harriman

(and of my other letters to him, and his to me) absolutely, and with no room for question of any kind, showed that my statements were entirely accurate, that I had absolutely kept faith, that there was no room whatever for misunderstanding or disagreement of memory, and that I not only did not ask anything of Mr. Harriman before election, but had explicitly told him in writing that what I had to say to him could be said as well after election—when he does this, Mr. Kennan is guilty of a further "*suppressio veri.*" When he furthermore fails to mention the fact that Mr. Loeb testified in absolute corroboration of my testimony, before the Senate Committee, he being the only other person present when I saw Mr. Harriman, he is guilty of a third "*suppressio veri.*" There was no chance whatever for any honest difference of opinion, and no man who is himself honest, and who has read the printed and published statements, can truthfully say that there was such chance.

Mr. Kennan continues: "It may be only a chronological coincidence, but it was in November, 1906, immediately after the rupture of friendly relations between the President and Mr. Harriman, that the Interstate Commerce Commission—either of its own initiative, or upon suggestion—began its investigation of the undesirable citizen's past activities." This is, of course, an innuendo—made in the meanest possible fashion—that this action might *not* represent "only a chronological coincidence." Mr. Kennan here is guilty of "*suggestio falsi.*" Mr. Franklin Lane, Mr. Prouty, Mr. Knapp, Mr. Harlan and Mr. Clark were, if I remember right, the Commissioners at that time. The suggestion that these men would listen to, or that I would make, a request that they proceed against a railroad president because of my personal disagreement with him, is monstrous in its iniquity, and equally monstrous in its absurdity. The man who makes such a suggestion is unfit to be believed on any point.

A little further on, Mr. Kennan states that, while Governor, I "signed a law allowing savings banks to invest in the securities of the Chicago & Alton Railroad," the implication being that I then approved of the conduct of Mr. Harriman in connection with the Chicago & Alton Railroad. Mr. Kennan, however, has himself previously said, on pages 3 and 17, that this acquisition of the Chicago & Alton by Mr. Harriman "excited little comment at the time," and that "serious, hostile criticism did not begin until several years later." He omits to state (what appears in the testimony) that I had, as Governor, announced (what I believe the Governors preceding and succeeding me also announced) that in legislation of this kind, I would follow the recommendation of the Savings Bank Association, refusing to sign any bill unless they endorsed it, and signing any bill they endorsed. The bill in question was recommended by the Savings Bank Association, and I signed it on their say-so. This was the proper course, and the only proper course. I had, at the

time, no knowledge whatever of the transaction in question, and could not have had such knowledge.

It appears then that Mr. Kennan, wherever he speaks of my dealings with the affair, is guilty either of the "*suppressio veri,*" or of the "*suggestio falsi*" which he condemns.

I am not familiar with the other matters on which he touches in this case, but I am familiar with what he thus says about my relations with Mr. Harriman. In view of his methods of setting forth the statements above referred to; and, in view of the facts above stated; I would refuse to accept his unsupported assertion on any point whatever as establishing even a presumption of the accuracy of this assertion, as regards the other matters in the case—those with which I am not personally familiar.

Very sincerely yours,

(Signed) THEODORE ROOSEVELT.

Had the President ordered an investigation at the time it would have been only in the right line of his duty. Prosperity and speculative activity had brought about an orgy of disrespect for law, of cunning and of greed, of which this Alton reorganization was only a little more, perhaps, than a fair sample. And even in the absence of irregular practises, railroads and industrial concerns were being consolidated right and left, in a most disquieting fashion. John W. Gates described the prevailing spirit in the Louisville & Nashville —Atlantic Coast Line affair:

We bought the Louisville & Nashville just as you would buy a box of candy. It was wrapped up and delivered to us, and we paid $50,000,000 for it. That was all there was to it.

Somebody had to put a stop to this sort of thing, or else control of most of the property of the United States would soon have been lodged in the hands of a very small coterie of men. Listen to Mr. Harriman, questioned by Commissioner Lane, now Secretary of the Interior, who, by the way, wrote the very able and convincing Interstate Commerce Commission's opinion upon the subject:

A. I would go on with it. If I thought we could realize something more than we have got from these investments I would go on and buy some more things. * * * * * *

Q. Supposing that you got the Santa Fe? A. You would not let us get it.

Q. How could we help it? A. How could you help it? I think you would bring out your power to enforce the conditions of the Sher-

man Anti-Trust Act pretty quick. If you will let us, I will go and take the Santa Fe to-morrow.

Q. You would take it to-morrow? A. Why, certainly I would; I would not have any hesitation; it is a pretty good property.

Q. Then it is only the restriction of the law that keeps you from taking it? A. I would go on as long as I live.

Q. Then after you had gotten through with the Santa Fe and had taken it, you would also take the Northern Pacific and Great Northern if you could get them. A. If you would let me.

Q. And your power, which you have, would gradually increase as you took one road after another, so that you might spread not only over the Pacific coast, but spread out over the Atlantic coast? A. Yes.

The most significant achievement of Theodore Roosevelt as President of the United States was the subjection of the great railroad business of the country to law and order, just as Andrew Jackson put an end to financial oligarchy in the field of banking. And it was just such occurrences as the Alton affair which finally enabled him to prevail over an opposition organized upon an unprecedented scale. It will be the recurrence of such affairs, as in the recent Rock Island, Frisco, and New Haven scandals, that will compel the Federal Government in time to assume the same sort of supervision over matters of finance which in 1906 was conferred upon it in respect of rates. All that can prevent this consummation will be a fixed determination among the bankers and the railroad men of the country to visit their most severe and united condemnation upon every member of their fraternity who violates the rules of the game. Among these rules a basic one is the prohibition of play with loaded dice; and dealings in the shares of a company by its own officers and directors, who profit by the misrepresentation of its affairs to the outside world, is just that and nothing else—gambling with loaded dice. Ostracism by the members of their own class, and not a chorus of invective against every academic "theorist" who dares to raise his voice in defense of fair play, will alone eliminate, once and for all, practises which, indulged in by a few, bring disrepute upon the great majority of railroad men who are well intentioned and straightforward in their dealings with their fellow citizens.

William Z. Ripley.